

**Summary of Testimony of
Eva S. Teig
Vice President, Public Affairs
Virginia Power
House Commerce Energy & Power Subcommittee
April 18, 1997**

- ◆ Virginia Power has long been in the forefront of change in the electric utility industry. It was among the first to use competitive bidding to meet new capacity requirements in the 1980s; it worked for passage of the 1990 Clean Air Act Amendments; and it supported passage of the 1992 Energy Policy Act. The company has implemented a comprehensive strategic plan as part of its preparations for competition, including an alternative regulation plan designed to facilitate an orderly transition process.
- ◆ Virginia Power supports competitive retail energy markets if the transition is properly structured and a leadership role for the states is clearly affirmed. If key transitional issues are adequately addressed and resolved, retail competition could produce benefits for consumers.
- ◆ Forty-nine states, including Virginia and North Carolina, are actively working to reform the provision of retail electric service within their borders. It is appropriate for the states to proceed with these efforts without federal intervention, which would impose a one-size-fits-all solution that ignores state differences and circumstances.
- ◆ Virginia Power opposes federal deregulation legislation that would preempt state authority, establish an arbitrary deadline for state action, and disrupt innovative customer choice experiments currently underway around the country. There may be a role for federal legislation in the future that removes barriers to state action, or facilitates changes to PURPA and PUHCA.
- ◆ Federal lawmakers should not rush to judgment on the critical and complex issues related to restructuring the electric utility industry. Nor should they allow policy decisions to be based on politics or pressure from special interest groups that will profit from rapid deregulation.
- ◆ At this time, the proper role for Congress is to allow the states to go forward with their efforts to shape tomorrow's electric utility industry and to foster efficient competition and fair treatment for all consumers.

**Testimony of Eva S. Teig
Vice President of Public Affairs
Virginia Power
At The Field Hearing on Electric Utility Deregulation
U.S. House Commerce Committee
Energy & Power Subcommittee
Richmond, Virginia
April 18, 1997**

Chairman Schaefer and members of the Subcommittee, my name is Eva Teig, and I am the vice president of Public Affairs at Virginia Power. I'm grateful for the opportunity to present my company's views on restructuring the electric utility industry, and I want to thank this subcommittee for coming to Richmond, which as you know, is not only Congressman Bliley's home town, it's the corporate headquarters of Virginia Power and our parent company, Dominion Resources.

Virginia Power serves approximately two million customers in Virginia and northeastern North Carolina, where we operate as North Carolina Power. We are the single largest supplier of retail electric service in Virginia and the state's largest taxpayer. Our company is also an active participant in local and state economic development initiatives and is widely recognized for its commitment to improving the quality of life in the communities where we do business.

Virginia Power has long been a pacesetter in recognizing and responding to changing industry conditions. During the past two decades, our company has been in the forefront of the dramatic changes that have swept through the electric power business.

For example, in response to PURPA, the 1978 Public Utilities Regulatory

Policy Act, we were among the first to use a competitive bidding process to meet our new capacity requirements. Incidentally, the mandatory purchase provision of this federal law has been responsible for creating the lion's share of Virginia Power's stranded cost exposure.

Our company also worked hard to secure passage of the 1990 Clean Air Act Amendments to address acid rain because it was in the interests of both our customers and the environment.

And we supported the 1992 Energy Policy Act to improve efficiency and introduce competition into the wholesale power generation sector.

The point is, we have actively participated in the development of workable legislation and will continue to do so.

Since 1995, we have been preparing for competition by means of a comprehensive strategic plan that has involved significant workforce, operational and capital spending reductions, extensive reengineering of traditional activities, the creation of a new energy services business, and full cooperation with state regulators and legislators to protect the interests of customers, taxpayers and shareholders.

As the capstone of this strategic plan, Virginia Power recently filed an application with the Virginia State Corporation Commission for an alternative form of regulation that will help lay the groundwork for an orderly transition process in Virginia. Our proposed plan will ensure fairness and price stability for consumers while protecting the financial viability of our company during the transition to a

more competitive environment. We intend to do everything we can to make sure the citizens of Virginia continue to enjoy electric rates that are well below the national average, and our alternative regulation plan will help us achieve that goal.

Mr. Chairman, Virginia Power does not oppose the move toward competitive retail energy markets. In fact, we favor it if the transition is properly structured and a leadership role for the states is clearly affirmed. In addition, large and small consumers must be treated fairly; the reliability of the power system must be maintained; the recovery of legitimate utility stranded costs must be assured; and all competitors must be allowed to play by the same rules.

If these and other key transitional issues are addressed and resolved by policy makers, a truly competitive marketplace could produce meaningful benefits for consumers.

If, however, these issues remain unresolved, utility shareholders and customers -- especially small customers... the corner grocer, the single parent and the elderly couple on a fixed income -- could end up subsidizing large industrial customers and paying more for their electricity.

In addition, if utility reserve margins are cut and transmission lines are overloaded, the reliability of the electric grid could be impaired.

And low-cost states like Virginia could see higher electricity prices and job losses if that low-cost power is exported to higher-cost states. We don't want to see Virginians pay more so that the residents of California or Massachusetts can pay less. Nor do we want to see Virginia's economic development suffer from higher

electric rates.

And those are just some of the possible consequences of a deregulation process that is rushed and doesn't adequately address the kind of complex issues I have touched on. Any attempt to deregulate the electric utility industry must be done with extreme care to ensure that our nation's world-class electricity system remains reliable, available and affordable for all consumers, large and small.

The electric utility industry is not the telephone industry, or natural gas, or transportation. You don't get a busy signal when electric lines are overloaded, you don't have electricity reserves tucked away for use when demand soars, you can't simply cut off service in areas that are not profitable.

Here in Virginia, both the General Assembly and the State Corporation Commission are in the process of assessing if and how retail competition would benefit the citizens of the Commonwealth. As a matter of fact, a model mandated by state legislation outlining how competition might work in Virginia will be finalized in just a few months.

North Carolina is considering legislation that would establish a special commission to assess the pros and cons of retail competition.

Around the nation, 11 states with high electric rates have already acted to bring competition to their retail energy markets. In total, 49 states are actively working on reforms to the provision of retail electric service.

We think that's the way it ought to be. States have regulated their own retail electric service for generations. It would not only be wrong but foolhardy to

toss out state regulation and experience by imposing federal constraints... To mandate a federal direction when the ultimate destination remains vague and full of potential risk.

The states are working aggressively to discover how to restructure the electric utility industry in ways that are fair to everyone -- big users and small. They are not waiting for Washington to act. They are moving now to bring about real change without jeopardizing the fairness and reliability their citizens rightly expect from their electric service.

These state efforts may share a common destination, and that destination may indeed be fully competitive markets. But the states are moving ahead along different paths, different paths that reflect the very real and significant differences among our states and regions. Electricity prices, fuel sources, industries, environmental concerns and a host of other issues differ from state to state. A single federal mandate for a certain kind of competition by a certain date would ignore those differences and distort any ultimate competitive market.

A nationwide mandate would also ignore the valuable and diverse experience the states are gaining right now with new competitive markets and customer services. The states can iron out unforeseen problems that inevitably arise when dramatic change is introduced into an industry that is not only complex, but essential to the nation's economic health. They deserve the chance to do just that. To refine their programs, to exchange lessons learned, and to do it without federal intervention.

In short, Mr. Chairman, we believe the states are doing the right things, right now, to ensure that competition is ultimately done right. The issue is not whether competition is a national concern. It clearly is. The question is, does it require a federal solution?

The answer is “no.” Virginia Power opposes federal deregulation legislation that would disregard longstanding state authority, establish an arbitrary deadline for state action, and throw out the innovative experiments and assessments that are currently underway around the country.

At some point in the future, there may be a role for federal legislation that removes barriers to state action, or facilitates changes to PURPA or the Public Utility Holding Company Act, for example. But I would urge you and your fellow lawmakers in Washington to avoid rushing to judgment on these critical and complex matters. I would urge you to resist making policy decisions based on politics or pressure from the same special interests that stand to profit from rapid deregulation.

Virginia Power, and a lot of leading economists, are skeptical about the enormous consumer savings being claimed by those who are pushing for immediate open access. They like to use the oft-quoted Citizens For A Sound Economy study to bolster their arguments.

But a closer analysis of this study shows that the claims for something over 15 percent savings on electric bills are greatly inflated and completely unrealistic. To get those kinds of savings, their study assumed substantial increases in

electricity use -- increases that are simply not feasible. It also chose to overlook transmission costs and the impact of stranded investment, among other things.

In conclusion, Mr. Chairman, reliable and reasonably-priced electric service is too important to the economy of our nation, and to its people, to mandate radical change by an arbitrary date without knowing what those changes will mean, or even how to bring them about.

Right now, the states are going forward with a variety of serious efforts to shape tomorrow's electric utility industry, to foster efficient competition and fair treatment for all consumers.

Right now, the best thing the federal government can do is to let them proceed.

I want to commend the Committee for its efforts to further the debate on electric utility restructuring, and I again want to thank you for allowing me to share Virginia Power's perspective on this critical issue. My company stands ready and able to provide any additional information you may need as part of this Committee's important work. I'll be glad to answer any questions you may have.
